



OFFICE OF FEDERAL  
PROCUREMENT POLICY

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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

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# MEMORANDUM TO HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

Subject: Anti-Inflation Measures in Federal Procurement

The initial Office of Federal Procurement Policy (OFPP) meeting on anti-inflation measures in Federal procurement was held on May 26, 1978, with representatives from 30 agencies. A summary of that meeting is attached for your information.

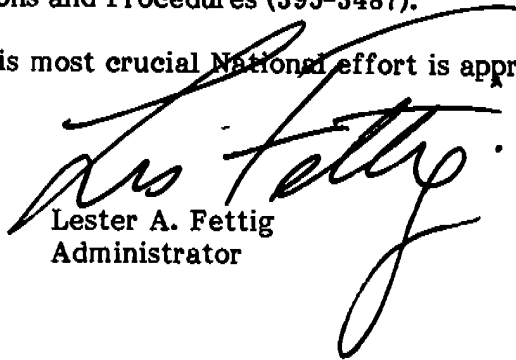
As noted in the summary, it was agreed that 10 or 12 agencies with the heaviest volume of procurement would be the active members of the "Anti-Inflation Council" with ad hoc participation by other interested agencies. The Council will be comprised of: USDA, DOD, GSA, VA, TVA, USPS, DHEW, NASA, DOT, DOE, Interior, and OFPP. Other agencies will be kept informed.

A draft OFPP instruction to carry out the President's directive to reflect the principle of deceleration in new contracts that contain escalation clauses is also enclosed for your information. This instruction will be issued after comments are received from the Council agencies named above.

The Council will hold its first meeting at 10:00 A.M., July 7, 1978, in room 9104, New Executive Office Building.

If you have any questions concerning the activities of the Council or OFPP guidance in our efforts to combat inflation, please call Joseph D. Cohn, Deputy Associate Administrator for Regulations and Procedures (395-3487).

Your cooperation and assistance in this most crucial National effort is appreciated.

  
Lester A. Fettig  
Administrator

Attachments



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
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OFFICE OF FEDERAL  
PROCUREMENT POLICY

**DRAFT**

MEMORANDUM TO HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Anti-Inflation Measures in Federal Purchasing

The President's memorandum of May 18, 1978, directed the Office of Federal Procurement Policy in cooperation with the Federal agencies to assure that price escalation clauses in all new or renegotiated contracts reflect the principle of deceleration. This will slow the built in spiral of inflation in several billion dollars worth of purchases.

All contracts resulting from solicitations issued on or after \_\_\_\_\_, 1978 which contain price adjustment clauses will reflect the principle of deceleration by providing for a price adjustment. Each price adjustment shall be reduced by one percentage point per year off the amount of adjustment indicated by the customarily used indices or computed on some other basis in the customary manner. To the extent feasible such provisions should also be incorporated in (1) other such contracts awarded after \_\_\_\_\_, 1978, even though they result from solicitations issued before that date, and (2) existing contracts in connection with negotiation of modifications.

Federal agencies must ensure that initial contract prices do not include contingencies or additional profit which would offset this deceleration.

Your cooperation in this effort is vital to the success of the President's program to combat inflation and is appreciated.

Lester A. Fettig  
Administrator

**SUMMARY OF OFPP MEETING ON "ANTI-INFLATION MEASURES  
IN FEDERAL PROCUREMENT"**

The initial OFPP meeting on Anti-Inflation measures in Federal Procurement was held on May 26, 1978 with representatives of 30 agencies.

OFPP Administrator Lester Fettig presented the background and involvement of the procurement role in the Administration's campaign against inflation. He noted that while Federal contracting accounts for only a small percent of the gross national product, our anti-inflation efforts would be of tremendous symbolic importance to show the Federal Government taking a leadership role.

We agreed that 10 or 12 agencies with the heaviest volume of procurement would be the active members of the "Anti-Inflation Council" with ad hoc participation by other interested agencies. The Council will be comprised of: USDA, DOD, GSA, VA, TVA, Interior, USPS, DHEW, NASA, DOT, DOE, and OFPP. Other agencies will be kept informed.

Mr. Fettig advised that the Council on Wage and Price Stability and the Council of Economic Advisors would assist in identifying products and provide targets for action. OFPP will provide guidance, as much and as formal as necessary to get the job done. He emphasized that although we do not wish to establish a new bureaucracy or new elaborate reporting paperwork, we do need a feedback mechanism to identify these areas where actions are being taken, and their adequacy. Regular meetings to report on progress will be held.

All agencies must be uniform in applying deceleration in contracts containing price escalation provisions. OFPP agreed to furnish formal guidance to the agencies on this subject. The agency representatives were very constructive, noting some problem areas to be considered. OFPP will forward a draft instruction to the Council agencies for review, before finalizing the guidance.

It was agreed that OFPP should not issue formal instructions concerning the reduction or delay in procurement of those commodities and services whose prices are rising rapidly. The consensus was that agencies could be most successful in handling the problem on their own, with only general guidance and the identification of the commodities. Agencies would determine, for example, whether postponement, substitution, or completely foregoing a requirement is the most feasible approach on a case-by-case basis. Reports back would then be used to assess whether further action was required.

Mr. Fettig advised that the first commodities to be considered as recommended by the COWPS, are food (meat) and building materials (lumber and gypsum). Agency representatives will discuss these commodities with responsible officials in their respective agencies and report back at our meeting concerning their plans to reduce, avoid or substitute. Proposed action plans will be reviewed, assessed, adjusted as needed and approved.

Agency representatives suggested that it might be advisable in some cases to review our plans with the program budget division of the agency concerned. For example, DOD noted that these anti-inflation measures might impact the anticipated level of budget expenditures. OFPP will look into this.

A number of other problems and suggestions concerning level of inventories, flow down to subs, etc., were mentioned. The question of flow-down to subs may warrant future consideration, but for now we should concentrate only on prime contractors to escalation clauses.

The next meeting will be held on July 7, 1978, at which time the Council agencies will report on their plans to reduce procurement of meat and building materials. Interim meetings with individual agencies will be held to help develop specific plans for effective adjustment of food and building material purchases.

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# EXECUTIVE SECRETARIAT

## Routing Slip

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